#### IRRIGATION SYSTEM MODERNIZATION PROJECT

# IMPLEMENTED BY THE ARMENIAN TERRITORIAL DEVELOPMENT FUND THROUGH ITS WATER SECTOR PROJECTS IMPLEMENTATION BRANCH

Special Purpose Financial Statements and Independent Auditor's Report

for the year ended 31 December 2020

YEREVAN June 2021

# IRRIGATION SYSTEM MODERNIZATION PROJECT

EDB CREDIT

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# INDEPENDENT AUDITOR'S REPORT

To the management of "Irrigation System Modernization Project" ("Project")

# Opinion

We have audited the accompanying special purpose Financial Statements of the "Irrigation System Modernization Project" ("Project") financed by Credit Agreement signed in October 16, 2015 between the Republic of Armenia and Eurasian Development Bank ("Financing Agreement"), and implemented by the Armenian Territorial Development Fund (ATDF) through its "Water Sector Projects Implementation Branch" (WS PIB), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the year ended 31 December 2020, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the special purpose financial statements present fairly in all material respects the cash receipts and payments of the Project for the year ended 31 December 2020 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis).

## **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Project in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter- Cash Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes that financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes. Our opinion is not modified in respect of this matter.

#### Emphasis of Matter- Change in Project Implementing Agency

Without qualifying our opinion, we draw your attention to Note 1.4 of these special purpose financial statements disclosing that change in project implementing agency from 14 January 2020.

#### Management's Responsibility for the Special Purpose Financial Statements

The management of the Project is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.



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# Auditor's Responsibility for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# Report on Other Legal Requirements

To comply with the terms of the Loan Agreement, the Project management shall insure that:

- 1. funds have been used in accordance with the conditions of the Financing Agreement, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- 2. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the Financing Agreement; Interim Unaudited Financial Reports (IFRs) issued by Project management during the Reporting year are in agreement with the underlying books of accounts;
- 3. the Special account used has been maintained in accordance with the provision of the Financing Agreement, and World Bank related guidelines.
- 4. goods and services financed have been procured in accordance with the Financing Agreement and World Bank related guidelines.

In our opinion, the Project management has complied with the above requirements during the year ended 31 December 2020.

4 June 2021 "BDO Armenia" cjsc

Vahagn Sahakyan, nel Khachatryan, FCCA Managing Partner Engagement Partner

Irrigation System Modernization Project EDB CREDIT Statement of cash receipts and payments For the year 31 December 2020 (Amounts are shown in USD)

		JK .	Actual	FIA	Planned	Varia	Variance	PAD
		Reporting year	Cumulative as at 31 Dec 2020	Reporting year	Cumulative as at 31 Dec 2020	Reporting year	Cumulative as at 31 Dec 2020	
OPENING CASH BALANCE								
Special Account (EDB Credit)		4,585,329.36	•					
Project Account (GOA)		-				Services reaction		
Project Account (Community)		278,991.35	•					
		4,864,320.71	•					
Sources of Funds								
EDB Credit	10.1	6,536,280.96	16,022,954.07					
Government of RoA	10.2	1,401,508.16	2,252,539.76					
Community 1	10.3	830,101.73	1,109,796.32					
TOTAL FUNDS		8,767,890.85	19,385,290.15					
Foreign currency loss		(154,849.19)	(157,771.21)					
Uses of funds	6							
<ol> <li>Goods, works, services, trainings, and PIU operating costs</li> </ol>		8.573.941.51	13.475.285.26	11.954.728.20	16.856.071.95	(3.380.786.69)	(3 380 786 69)	40 000 000 00
2. Taxes and other Mandatory Payments		1,291,647.81	2,140,460.63	1.387,126.94			(95.479.13)	8,400.000.00
3. Co-financing of the civil works part 3 of the project		493 451 45		493 451 45			-	1 600 000 00
TOTAL PROJECT EXPENDITURES		10,359,040.77	16,	13,835,306.59	19,	(3,476,265.82)	(3.476.265.82)	50.000.000.00
CLOSING CASH BALANCE	9	PERMUTATION NOT	Nº5					
Special Account (EDB Credit)	-	2,547,668.81	0.2,547,668.81					
Project Account (GOA)	Children of the	are la						
Project Account (Community)	E	1432 570,652.79	\$ 570,652.79					
TOTAL CLOSING CASH	111	3,118,321.60	3,118,321.60					
Ashot Khachatryan	TET THE PARTY IS			Z×	Narine Keryan	Myale	7	

4 June 2021

The notes on pages 7-14 form an integral part of these special purpose project financial statements.

Irrigation System Modernization Project EDB CREDIT Statement of uses of funds by Project activity For the year 31 December 2020 (Amounts are shown in USD)

	ACI	Actual	Plan	Planned	incl		
Component	Rannting	Cumulation -			VdI	Valiance	PAD
	Vear	at 31 Dec 2020	Keporting	Cumulative as	Reporting	Cumulative as at	!
Component 1. Conversion of pump-based		AL J. CCC 2020	year	at 31 Dec 2020	year	31 Dec 2020	
irrigation to gravity	1.911.158.46	4 787 804 80	1 705 324 44				
Component 2. Rehabilitation of main and				4, 2//, /UU/.5/ 205, /97.32	205,797.32	205,797.32	11,880,000.00
secondary canals	2.670.364.64	4.553 009 50	3 725 027 74				
Component 3. Upgrading of on-farm irrigation				(01,062,568.10) (09,7/C,010,C	1,065,568.10)	(1,065,568.10)	12,040,000.00
networks of WUAs	5.553.210.31	6 270 105 65	7 502 240 50				
Component 4. Project management.			40.440,070,1	8,310,544.93 (2,040,439.28)	2,040,439.28)	(2,040,439.28)	20,260,000.00
Development of institution capacities of WUAs and establishment of pilot WIIA Federations							
	224,301.36	503,277.30	800,363.12	1,079,333.06 (576,055.76)	576,055.76)	(576,055.76)	5.820.000.00
Total Project Expenditure	10,359,040.77	16,109,197.34	13 835 306 50	10 585 467 46		10,359,040.77 16,109,197.34 13 835 306 59 10 585 462 16 /2 /2 /2 /2 /2 /2 /2 /2 /2 /2 /2 /2 /2	
			· · · · · · · · · · · · · · · · · · ·	01.001,000,01	(79.607.0/4/6)	(3.4/6.265.82)	50 000 000 000

Deputy Director of the ATDF -branch Director 800 Ashot Khachatryan

4 June 2021

The notes on pages 7-14 form an integral part of these special purpose project financial statements.

ATDF Branch Chief Accountant

NarineKeryan

#### 1. General information

#### 1.1. The Project

On 16 October 2015 between the Republic of Armenia and the Eurasian Development Bank (EDB) was concluded Credit Agreement, according to which EDB provided a credit to the Republic of Armenia in the amount of 40,000,000 USD.

The Credit is provided for the implementation of "Irrigation System Modernization Project" (the Project).

The Project Effective Date is June 10, 2016. The Completion Date in accordance with General Agreement (annex 2) is June 30, 2021.

On December 21, 2020, according to the decision of Board Eurasian Fund for Stabilization and Development (EFSD), the Project Implementation Closing date is set December 31, 2023.

The Grace Period for submitting withdrawal applications for the expenditures incurred before the Project Implementation Closing date is six months following the Project Implementation Closing date.

## 1.2. The Project objectives

The objectives of the Project are to:

- (i) increase the efficiency of irrigation systems;
- (ii) enlarge the irrigated area;
- (iii) develop the managerial potential and increase the technical equipment of WUA, establishment of WUA Federations.

The Project consists of the following components:

Component 1. Conversion of pump-based irrigation to gravity;

Component 2. Rehabilitation of main and secondary canals;

Component 3. Upgrading of on-farm irrigation networks of WUAs;

Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations.

#### 1.3. The Project Budget and Financing

The Project is being financed by the following sources:

- EDB Credit 100% of all expenditures, exclusive of taxes,
- The Government of the Republic of Armenia (Government of RA) expenditures related taxes,
- Communities 10% of civil works contracts under part 3 of the project.

Category	EDB Credit	Government of the RA	Community	Total
	USD	USD	USD	USD
1. Goods, works, services, trainings, and PIU operating costs	40,000,000.00		of Property .	40,000,000.00
2. Taxes and other Mandatory Payments		8,400,000.00		8,400,000.00
3. Co-financing of the civil works part 3 of the project			1,600,000.00	1,600,000.00
Total	40,000,000.00	8,400,000.00	1,600,000.00	50,000,000.00

#### 1.4. Project Implementation

Until 30 December 2019, the Project was implemented by "Water Sector Projects Implementation Unit" State Agency (the WSPIU) of the Water Committee of the Ministry of Territorial Administration and Infrastructure of the RA.

The activities of the WSPIU were terminated from December 30, 2019 in accordance with the RA Government Decree No. 170-N of February 28, 2019. Further implementation of the ongoing Projects will be continued by the Armenian Territorial Development Fund through its structural subdivision. For that purpose, upon the decision of the ATDF Board of Trustees, Water Sector Projects Implementation Branch of the Armenian Territorial Development Fund (ATDF WSPIB) was established on January 14, 2020.

The ATDF WSPIB's address is: Vardanants blind alley 8, Yerevan 0010, Republic of Armenia.

#### 2. Summary of significant accounting policies

#### 2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC).

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

#### 2.2. Cash basis of accounting

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the payments are made.

#### 2.3. Reporting currency

The reporting currency of these special purpose financial statements is USD.

The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into USD based at the exchange rate defined by the Central Bank of the Republic of Armenia (CBA) at the date of the transaction.

The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

The average exchange rate at currency market issued by the CBA as of 31 December 2019 is 1 USD =479.70 AMD

The average exchange rate at currency market issued by the CBA as of 31 December 2020 is 1 USD =522.59 AMD

#### 2.4. Taxes

Taxes are paid in accordance with the tax regulations of the Republic of Armenia.

#### 2.5. Budget

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated annual budget for the reporting period.

# 3. Summary of Summary Reports and SOEs

For the year ended December 31, 2020.

Application N	Application value date	(1) Goods, works, services, trainings, and PIU operating costs	Total
Cath		(USD)	(USD)
12	15 Sep 2020	414,670.64	414,670.64
13	15 Sep 2020	812,773.75	812,773.75
14	15 Sep 2020	811,392.16	811,392.16
15	27 Oct 2020	4,497,444.41	4,497,444.41
	otal	6,536,280.96	6,536,280.96

Total Labi Holds

Currency

# 4. Statement of Special Account

Bank account number Bank Bank location 900000901794 Central Treasury

1 Meliq-Adamyan, Yerevan, 0010 Republic of Armenia USD

	EDB Credit
	2020
1. Opening balance	4,585,329.36
<ol> <li>Add: opening discrepancy</li> <li>EDB advance/replenishment</li> <li>Less: Refund to EDB from SA</li> </ol>	6,536,280.96
5. Present outstanding amount advanced to SA	11,121,610.32
6. SA closing balance as at 31.12.2020	2,547,668.81 8,573,941.51
<ol> <li>Add: Amount of eligible expenditures paid</li> <li>Less: interest earned (if credited to SA)</li> </ol>	7,547,662,6) 4.5
9. Total advance accounted for	11,121,610.32

10. Closing discrepancy (5)-(9)

# 5. Statement of Financial Position

The Statement of Financial Position discloses assets, liabilities, and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	note	31,12,2020	24 49 9949
	note	USD	31.12.2019 USD
ASSETS			030
Cash	6	3,118,321.60	4,864,320.71
Prepayments	7	3,471,684.46	753,165.26
Total assets		6,590,006.06	5,617,485.97
LIABILITIES			
Payables	8	353,699.75	363,399.95
Total liabilities		353,699.75	363,399.95
NET ASSETS			
Cumulative income			
EDB Credit	10.1	16,022,954.07	9,486,673.11
Government of RA	10.2	2,252,539.76	851,031.60
Community	10.3	1,109,796.32	279,694.59
Cumulative expenses		19,385,290.15	10,617,399.30
Project expenses			
		(12,994,105.24)	(5,366,868.37)
		(12,994,105.24)	(5,366,868.37)
Foreign exchange gain/(loss)		(154,878.60)	3,555.09
Total net assets		6,236,306.31	5,254,086.02

#### 6. Cash

Total

	Account held at	Underlying Currency	31.12.2020 USD	31.12.2019 USD
Special account (EDB Credit)	Treasury	USD	2,547,668.81	4,585,329.36
Project account (community)	Treasury	AMD	570,652.79	278,991.35
Total		-	3,118,321.60	4,864,320.71
7. Prepayments				
		31.12.2020 USD	31.12.2019 USD	
Civil Works		3,471,684.46	and the second se	

# Irrigation System Modernization Project EDB CREDIT Notes to the special purpose financial statements For the year 31 December 2020

8. Payables

31.12.2020 USD	31.12.2019 USD
353,699.75	332,198.87
1	31,201.08
353,699.75	363,399.95
	USD 353,699.75

Irrigation System Modernization Project EDB CREDIT Notes to the special purpose financial statements For the year 31 December 2020

9. Project Expenditures

9.1 Project expenditures financing per funds

nt ng		Reporting year	ng year			Cumulative As at 31 Dec 2020	ative lec 2020	
Expenditure category	EDB Credit	Government of RA	Community	Total	EDB Credit	Government of Community RA	Community	Total
	USD	USD	USD	USD	USD	USD	USD	USD
<ol> <li>Goods, works, services, trainings and operating costs</li> </ol>	8,573,941.51		inst i	8,573,941.51	8,573,941.51 13,475,285.26			- 13,475,285.26
2. Taxes and other Mandatory Payments		1,291,647.81		1,291,647.81		2,140,460.63		2,140,460.63
<ol> <li>Co-financing of the civil works part 3 of the project</li> </ol>		31 Dec	493,451.45	493,451.45		15	493,451.45	493,451.45
Total	8.573.941.51	8.573.941.51 1.291.647.81	493.451.45	493.451.45 10.359.040.77 13.475.285.26 2.140.460.63	13.475.285.26	2.140.460.63	493.451.45	493.451.45 16.109.197.34



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# 9.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2020	Total budget	Execution
	USD	USD	%
1. Goods, works, services, trainings and operating costs	13,475,285.26	40,000,000.00	34%
2. Taxes and other Mandatory Payments	2,140,460.63	8,400,000.00	25%
3. Co-financing of the civil works part 3 of the project	493,451.45	1,600,000.00	31%
Total	16,109,197.34	50,000,000.00	32%

# 10. Financing

10.1 EDB Credit

	Reporting period USD	Cumulative as at 31 Dec 2020 USD
Advances/ (advance recovery)	100 - 10 - 10	5,000,000.00
SOE and Summary Report	6,536,280.96	11,022,954.07
Total	6,536,280.96	16,022,954.07
Total financing budget		40,000,000.00
Percentage of finance provided as at 31 Dec 2020		40%

# 10.2 Government of RoA

	Reporting period USD	Cumulative as at 31 Dec 2020 USD
Financed	1,401,508.16	2,252,539.76
Total financing budget		8,400,000.00
Percentage of finance provided as at 31 Dec 2020		27%

# 10.3 Community

	Reporting period USD	Cumulative as at 31 Dec 2020 USD
Financed	830,101.73	1,109,796.32
Total financing budget		1,600,000.00
Percentage of finance provided as at 31 Dec 2020		69%

# Irrigation System Modernization Project EDB CREDIT

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PROJECT AND DISBURSED BY THE EDB For the year 31 December 2020 (Amounts are shown in USD)

Expenditure Category	Appl.	Project	EDB	Difference
1. Goods, works, services, trainings and operating costs	12	414,670.64	414,670.64	
	13	812,773.75	812,773.75	
	14	811,392.16	811,392.16	
	15	4,497,444.41	4,497,444.41	
Total		6,536,280.96	6,536,280.96	•